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ABSTRACT

Reviewing 28 economic development projects on seven reservations, the General Accounting Office (GAO) evaluated the effectiveness of Federal efforts to improve American Indian economic conditions, the problems encountered, and the opportunities to improve these efforts. Evaluation revealed a need for: (1) better promotional efforts (up-to-date promotional material; closer working arrangements among Federal, Tribal, and business representatives; and aggressive program administration; and (2) a single agency to direct and coordinate Indian economic development. GAO recommended that the Office of Management and Budget provide for an organizational framework clarifying Federal Indian economic development program and coordination responsibilities and work with heads of departments and agencies to develop: (1) improved procedures for project evaluation and monitoring (detailed guidelines, critical evaluation by the funding agency, clear documentation of the basis for financing, a monitoring plan, and a followup procedure) and (2) a systematic broad-scale promotional program. GAO also recommended that the Commissioner of Indian Affairs identify solutions to problems of excessive Indian labor turnover. Five Federal agencies generally agreed with GAO conclusions and, except for the Department of the Interior, supported GAO's recommendations. (JC)

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REPORT TO THE CONGRESS

Improving Federally Assisted Business Development On Indian Reservations

Department of Agriculture
Department of Commerce
Department of the Interior
Small Business Administration

The report discusses the effectiveness of Federal efforts to improve economic conditions on Indian reservations, the problems encountered, and the opportunities to improve those efforts.

GAO reviewed 28 economic development projects on 7 Indian reservations that accounted for more than $27 million of Federal agency expenditures for developing the economies of reservations. Its study including its survey of businesses showed that the agencies have had limited success.

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

RED-75-371

JUNE 27, 1975

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114868

To the President of the Senate and the
Speaker of the House of Representatives

Our report concerns improving federally assisted business development on Indian reservations.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Interior; the Secretary of Agriculture; the Secretary of Commerce; and the Administrator of the Small Business Administration.

Comptroller General
of the United States

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ABBREVIATIONS

BIA	Bureau of Indian Affairs
EDA	Economic Development Administration
FmHA	Farmers Home Administration
GAO	General Accounting Office
OMBE	Office of Minority Business Enterprises
RDS	Rural Development Service
SBA	Small Business Administration

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

IMPROVING FEDERALLY ASSISTED BUSINESS DEVELOPMENT ON INDIAN RESERVATIONS

Department of Agriculture
Department of Commerce
Department of the Interior
Small Business Administration

D I G E S T

Greater success in establishing businesses on Indian reservations and increasing Indian employment opportunities will depend on Federal agencies' doing a better job in attracting sound business prospects to the reservations.

Because of the proliferation of Federal programs involving Indian financing, action is needed to determine how the agencies, collectively, can meet Indian needs and assign responsibility to a single agency for directing and coordinating Indian economic development. (See p. 42.)

About 550,000 Indians live on or near more than 200 reservations under Federal jurisdiction. The reservations' economic environments are typified by high unemployment and low family income levels. (See p. 1.)

Several major Federal agencies administer business or industrial development programs under which Indians can obtain financial or technical assistance to improve economic conditions on reservations. (See p. 2.)

GAO's study, including its survey of businesses, showed that the agencies reviewed have had limited success.

GAO recommended that the Office of Management and Budget

--provide for an organizational framework clarifying Federal Indian economic development program and coordination responsibilities (see p. 40) and

--work with heads of departments and agencies to develop, by means of an interagency

committee, (1) improved procedures for project evaluation and monitoring and (2) a systematic broad-scale promotional program (see pp. 24 and 45).

GAO also recommended that the Secretary of the Interior have the Commissioner of Indian Affairs identify solutions to problems of excessive Indian labor turnover and consider establishing a postemployment counseling program as one possible solution to helping the Indian worker adjust to a structured work environment. (See p. 41.)

The five Federal agencies that commented on the report generally agreed with the facts and conclusions and, except for Interior, supported the need for improvements in Indian economic development programs as embodied in the recommendations. (See p. 46.)

Interior disagreed with GAO's recommendations and expressed a reluctance to initiate any corrective actions without a tribal initiative on a reservation-by-reservation basis. (See pp. 47 to 50.)

Interior said it did not advocate establishing a formal coordinating mechanism as recommended by GAO but that it would cooperate with such a group if one were established. (See p. 47.)

GAO recognizes the role of tribal governments in effecting economic development of Indian reservations but believes the Federal Government must take the lead in a promotional program to insure that its scope and direction are broad enough to reach businesses most compatible with reservation development and, whenever possible, to channel economic potential onto the appropriate reservations. (See p. 48.)

A formal coordinating mechanism would provide a focal point for program administrators involved in Indian economic development efforts to share experiences and work toward a sound approach to Indian economic development assistance. (See p. 40.)

Rewards at stake through better program results are considerable. If jobs planned for Indians through federally funded projects had been realized, unemployment on the seven reservations GAO reviewed would have dropped about 70 percent. (See p. 25.)

CHAPTER 1

INTRODUCTION

About 550,000 Indians live on or near the more than 200 reservations under Federal jurisdiction. The reservations' economic environments are typified by high unemployment and low family income levels. According to 1973 reservation employment statistics compiled by the Bureau of Indian Affairs (BIA), Department of the Interior, about 62,000, or 37 percent, of the 167,000 total reservation work force was unemployed. On some reservations more than 80 percent were unemployed. An additional 30,000, or about 18 percent, were employed on a seasonal or part-time basis.

The poor economic conditions on most reservations and their adverse effect on the quality of reservation life are of growing concern to the Indian people, the public, and Members of Congress.

FEDERAL EFFORTS IN PERSPECTIVE

The stated policy of the Federal Government is to provide Indians full participation in the American way of life and to assist Indians in achieving a standard of living equal to the national average. The national unemployment for calendar year 1973 was 4.9 percent. This statistic, however, is not comparable to those available for reservation Indians. The local BIA Agency offices estimate unemployment using whatever information is available, and accuracy varies from place to place. Unlike the national statistic, persons not seeking work are included because of the difficulty in estimating this group without surveys. Including such persons results in a higher unemployment rate, but the extent of the overstatement is unknown.

In 1968 the President reaffirmed the Federal Government's policy and committed Federal agencies to improve the economic conditions of reservation Indians where they live by

--boosting the standard of living through economic development and employment programs,

--providing opportunities to obtain the skills necessary to live in equality and dignity, and

--providing opportunities to fully participate economically and socially in the life of modern America.

Several major Federal departments and agencies administer business or industrial development assistance programs under which Indians can obtain financial and technical assistance to improve economic conditions on reservations. Among these are BIA; the Economic Development Administration (EDA) and the Office of Minority Business Enterprises (OMBE), Department of Commerce; the Farmers Home Administration (FmHA) and the Rural Development Service (RDS), Department of Agriculture; and the Small Business Administration (SBA).

Unlike BIA programs, which are directed solely to Indian problems, those of other agencies encompass a much larger target population. For example, most FmHA programs are intended to help the rural areas of the country; the SBA programs are intended to help all small business, including minority owned and operated business; and EDA programs are intended to help economically distressed areas, including Indian reservations. Indian reservation assistance is not always viewed separately from that provided other eligible groups or individuals. Consequently, total reservation funding is not readily determinable from the information systems maintained by the agencies.

Information that was available shows a substantial investment by the Federal Government in reservation economic development. For example, between fiscal years 1966 and 1973, EDA and BIA had provided about $162 million and $20 million, respectively, for assisting economic development on Indian reservations. SBA estimated that during the period July 1, 1971, through December 31, 1973, nearly $18 million had been loaned to reservation Indians.

The economic development programs of the various departments and agencies are more fully discussed in the following paragraphs.

Bureau of Indian Affairs

Before 1974, BIA had funded reservation business development primarily through a loan fund. Some limited grant funds (about $3.4 million) were made available during fiscal year 1971. Also, BIA administered a business promotional and technical assistance program which was intended, among other things, to assist the various Indian tribes in (1) establishing new and expanding existing industrial and commercial enterprises, (2) developing and publicizing information about investment possibilities on Indian reservations, and (3) establishing Indian-owned enterprises.

During the period July 1, 1965, through December 31, 1973, BIA loaned more than $4.7 million to businesses that had difficulty arranging financing from private money markets. During this same period, BIA spent more than $12.3 million under their business promotion and technical assistance program.

The approval of the Indian Financing Act of 1974 (25 U.S.C. 1451) significantly increased BIA's ability to fund reservation economic development. Important provisions of the act include

--increasing the amount of direct revolving fund loans,

--authorizing BIA to make business development grants, and

--establishing new loan guarantee and interest subsidy programs for recipients of BIA funding.

The act authorizes $50 million for revolving fund loans, $60 million for the interest subsidy program, and $30 million for business development grants over the three fiscal years following enactment of the legislation. Also, the act authorizes BIA to guarantee up to $200 million in loans by lending institutions. Funding approval for fiscal year 1975 totals $68 million.

Department of Commerce

Economic Development Administration

Under the authority of the Public Works and Economic Development Act of 1965 (Public Law 89-136), EDA has provided economic assistance to tribes since fiscal year 1966. EDA provided

--grants for overall reservation economic development and individual project planning (planning and technical assistance),

--loans and grants for improving the reservations' infrastructure[1] to make the reservations more amenable for economic development (public works assistance), and

--investment capital to help finance business ventures (business loans).

The following table shows the assistance provided by EDA between 1960 and 1973.

Type of assistance	Amount (000 omitted)
Planning	$ 6,859
Technical	5,970
Public works	134,431
Business loans	14,595
Total	$161,855

In fiscal year 1974, EDA did not provide business loan funds for the Indian program. Indications are that the bulk of future Indian business loans will be made by BIA under programs established by the Indian Financing Act of 1974.

[1] Community buildings, water and sewer systems, and industrial parks.

Fiscal year 1974 funding for EDA totaled over $1.1 million for planning grants, over $1.3 million for technical assistance, and over $29 million for public works. EDA, through the public works grants, funded such projects as sewer and water lines, access roads, aquaculture projects, community buildings, skill-training centers, and various recreational projects.

An EDA official told us that for fiscal year 1975 nearly $25 million would be available to finance projects on Indian reservations. The projects will not necessarily directly involve business development but would provide community service benefits. EDA plans to provide funding for planning grants and technical assistance of $3.2 and $2 million, respectively, to reservation Indians.

EDA is presently operating under an extension of its initial legislative authority which expired in 1971. The extended authority will expire in June 1976.

Office of Minority Business Enterprises

In March 1969, the President, by Executive order, directed the Secretary of Commerce to "coordinate as consistent with law the plans, programs, and operations of the Federal Government which affect or may contribute to the establishment, preservation and strengthening of minority business enterprise." OMBE was established to carry out the President's directive.

OMBE officials told us that OMBE established an Indian Desk which draws funds from the general OMBE allocation on a project-by-project basis for funding through its various regional offices. OMBE does not directly fund Indian businesses but rather supports business development organizations which supply training and technical assistance to Indian enterprises. The Indian Desk received a total of $ .8 million funding in fiscal year 1975.

Department of Agriculture

The Rural Development Act of 1972 (Public Law 92-419) established procedures for making or insuring loans "for the purpose of improving, developing, or financing business,

industry, and employment and improving the economic and environmental climate in rural communities." The act further specifies that Indian tribes and tribal groups are to be included as eligible for funding.

The act provides that public borrowers shall be eligible for $50 million annually for grants to build and equip rural industrial parks and similar facilities. Also, residents of rural areas shall be eligible to obtain short-term operating loans of up to $50,000 for small business enterprises established in rural areas. FmHA administers these programs.

The Secretary of Agriculture was directed by the act to provide leadership and coordination for all Federal rural economic development programs. The Secretary assigned RDS these responsibilities in 1972. In December 1973, the Administrator of RDS established an Indian Desk to serve as a point of contact within Agriculture for Indian economic development activities.

The RDS Indian Desk was superseded in November 1974 by an Indian Desk in Agriculture's Office of Equal Opportunity. The new Indian Desk will be the focal point of all departmental activities concerning Indians.

Agriculture officials noted that the RDS Indian Desk continues to function in the area of Indian development problems in rural areas, coordinating closely with Agriculture's Office of Equal Opportunity and other agencies in the Department having rural development responsibilities.

The Secretary of Agriculture has also established a Special Task Force for American Indian Affairs to assist the Indian Desk in carrying out its responsibilities. Permanent members of the Task Force have been appointed from six agencies within Agriculture.

Appropriations under the act were first authorized in October 1973. Since that time, FmHA has provided $656,000 in loans and grants for Indian reservation business or industrial projects. Agriculture does not set aside business or industrial development funds specifically for eligible groups or minorities.

The Department of Agriculture does have some funds specifically designated for eligible groups or minorities. By law, the Indian land acquisition loan program administered by FmHA is available only to Indian tribes and tribal corporations. Since the beginning of this program in fiscal year 1971, FmHA has obligated 26 loans totaling $22,376,000 to 16 tribes; $10 million has been made available for this program in fiscal year 1975.

Small Business Administration

Under the Small Business Act (Public Law 85-536), SBA is authorized to make loans to individuals or firms for generating small business development. SBA's authority was expanded under the Economic Opportunity Act of 1964, as amended (42 U.S.C. 2902a), to assist small business concerns located in urban and rural areas by making credit available to those who, due to social or economic disadvantage, have been denied the opportunity to acquire adequate business financing through normal lending channels on reasonable terms.

SBA's financing for enterprises in Indian areas has been provided through its regular Business Loan, Economic Opportunity Loan, and Local Development Company Loan programs. These programs provided investment capital either by lending directly to the entrepreneur or guaranteeing up to 90 percent of a lending institution's loan to the business enterprise.

Technical and management assistance has been available through SBA from its employees, the Service Corps of Retired Executives, the Active Corps of Executives, and consultants. Counseling may be provided in such areas as accounting, marketing, production, and finance.

PERSPECTIVE ON RESERVATIONS REVIEWED

To evaluate the effectiveness of Federal efforts to help Indians achieve their economic development goals, we reviewed the economic development activities undertaken with Federal assistance on seven reservations. We selected these reservations because (1) large amounts of Federal funds had been spent for their economic development and

(2) they provided variation in factors influencing economic development success, such as proximity to major economic centers, climate, general accessibility, and geography. Four of the 7 reservations visited (Blackfeet, Crow, Gila River, and San Carlos) were included in the 16 reservations EDA identified in 1967 as having the greatest potential for economic development.

These reservations and some of their characteristics are shown in the following table. The scope of our review is discussed in chapter 6.

Characteristics	Reservation						
	San Carlos	Gila River	Crow	Blackfeet	Warm Springs	Yakima	Makah
State located	Arizona	Arizona	Montana	Montana	Oregon	Washington	Washington
Indian population (1973) (note a)	5,097	8,331	4,334	6,216	1,745	6,300	571
Work force (1973) (note a)							
Employed:							
Permanent	599	1,390	757	776	430	775	96
Temporary (note b)	108	500	129	82	5	590	33
Unemployed	440	421	363	495	60	585	51
Total	1,147	2,311	1,249	1,353	495	1,950	180
Distance from a city with more than 10,000 population (miles)	106	27	75	103	43	27	66

[a]According to BIA reports.
[b]Seasonal or part-time work.

CHAPTER 2

IMPROVEMENTS NEEDED IN EFFORTS TO PROMOTE RESERVATIONS

Although EDA funded industrial parks on Indian reservations, it and the tribes generally relied on BIA to attract new or expanding businesses to the reservations. The overall effectiveness of BIA's efforts cannot be measured because records are not available. But judging from the occupancy rates of reservation industrial parks, the overall success of the promotional program was poor.

BIA's limited success in promoting the reservations and industrial parks stemmed, in part, from the fact that the environment on many reservations inhibits economic development efforts. However, in our opinion, the potential for greater success existed and would have been better realized if in its promotional efforts BIA had (1) better utilized program resources by identifying and concentrating their promotional efforts on those types of businesses most compatible with reservation development, (2) been more aggressive and more helpful in dealing with interested firms, and (3) used current, complete, and reliable promotional materials.

To induce businesses to locate on Indian reservations, EDA spent about $16 million from 1966 through 1973 to provide 37 industrial parks[1] on 33 reservations. According to EDA statistics at May 30, 1973, the average occupancy rate of the 26 completed parks was about 17 percent of the total improved acreage. The rate ranged from no occupancy to 100 percent. Only 2 parks exceeded 50-percent occupancy, 5 parks had no tenants, and 11 parks had only 1 tenant.

---

[1] Industrial parks consist of an area, zoned industrial, developed to attract business and allow planned growth. The 26 completed parks ranged in size from 4 acres to 410 acres and averaged about 97 acres. Total improved acreage averaged about 70 acres. Park development varies by EDA region but, as a minimum, should include the provision for two or more facilities on the park (e.g., sewer and water lines, or access road and railroad spur, etc.).

We found similar results for the reservations we visited. EDA spent over $3 million for seven parks on five of the reservations. About 1,140 acres of reservation land were developed for the parks which were expected to provide over 2,300 permanent employment opportunities for Indians. As of May 1973, only 16 percent of the available acreage was in use and only 611 Indians, or 27 percent of expected employment, had been employed.

EDA used consultants to conduct promotional mail campaigns but has concluded that the results were poor. In November 1973, EDA established an in-house effort which they believed was necessary because, in their opinion, BIA had not adequately promoted EDA-financed industrial parks.

FACTORS INHIBITING RESERVATION ECONOMIC DEVELOPMENT

During 1969, the Joint Economic Committee compiled a compendium of studies which included articles prepared by Federal agencies (including BIA, EDA, and SBA) and Indian organizations depicting the economic and social conditions on Indian reservations. These studies identified several factors which inhibit economic development, including

--competition between reservation communities and nearly 18,000 towns and cities which are also looking for new economic opportunities;

--differences between Indians' concepts of time, production standards, and absenteeism and those of industry;

--gaps in the educational attainment of Indians as compared to non-Indians (median level of schooling of Indians in 1970 was 9.8 years while the national median was 12.1 years);

--shortages in quantity and quality of job skills;

--deficiencies in exploitable natural resources on some reservations;

--difficulties in Indians' obtaining credit because of not being accustomed to ordinary business practices and a lack of management or technical training; and

--disincentives of physical isolation and poor transportation facilities which have discouraged otherwise interested concerns.

These studies conclude that Indian reservations are generally not conducive to economic development.

Impact of factors on location decisions of businesses surveyed by GAO

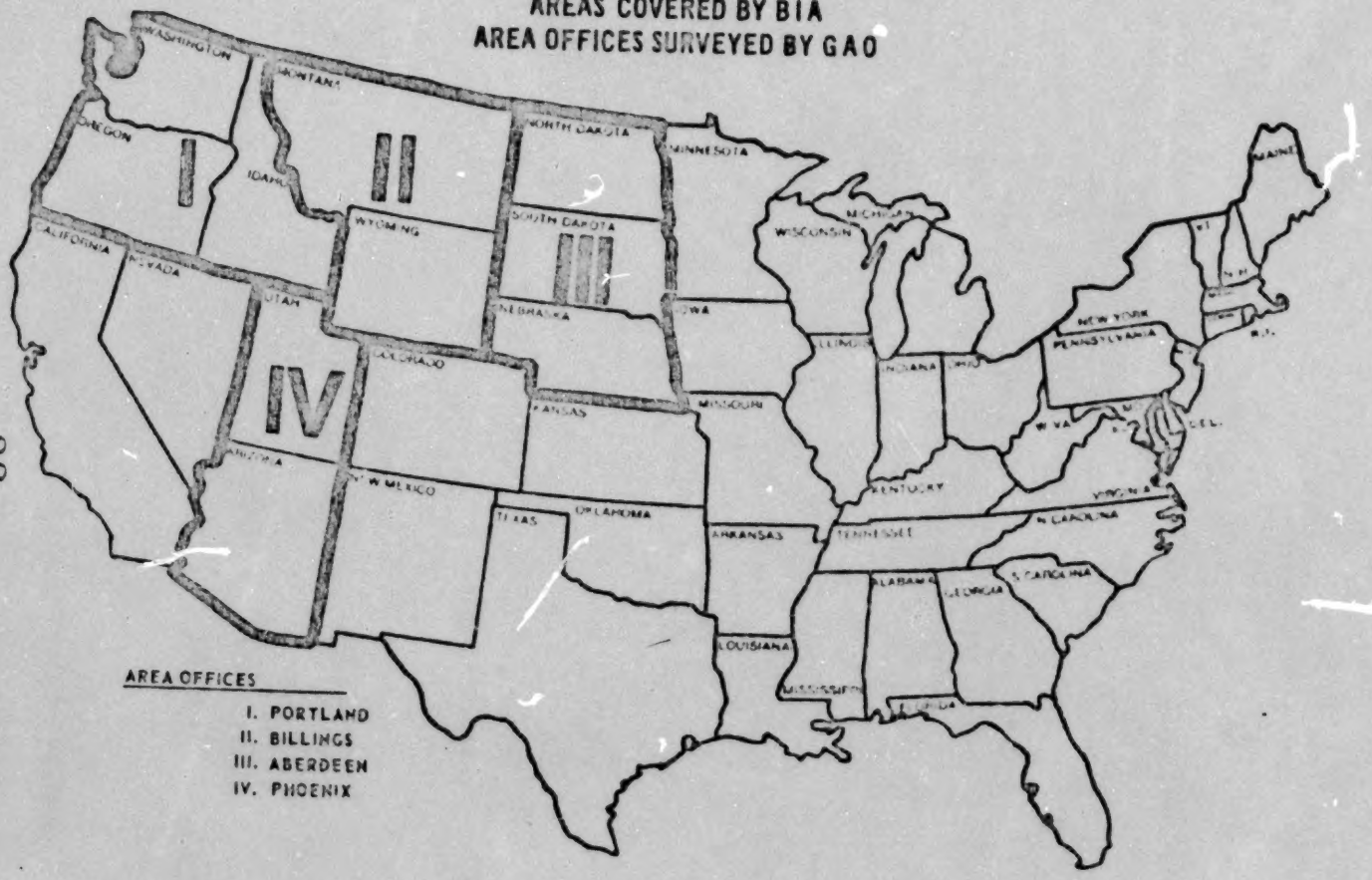
To evaluate the impact of factors such as the above on decisions of businesses to locate on reservations, we mailed questionnaires to 229 businesses. The businesses were identified for us by four BIA area offices as those being interested in locating on a reservation during fiscal years 1970 through 1974. (The accompanying map shows the 10-State area covered by the four area offices.) We also wanted to determine what potential existed to attract these businesses through better promotional efforts. Our findings regarding this potential are discussed on pages 15 and 16.

The survey results were encouraging and, we believe, important in terms of the outlook for economic development potential of Indian reservations. It should be noted that, since these results represent a segment of industry, implications should not be drawn for the attitudes of industry as a whole.

Despite the existence of unfavorable conditions on the reservations, the respondents generally do not consider such factors as physical isolation and competition by non-Indian communities detrimental to their location-selection decision.

Profile of businesses responding to survey

Questionnaires were completed and returned by 62 of the businesses, most of which were manufacturing firms


AREAS COVERED BY BIA
AREA OFFICES SURVEYED BY GAO
I
II
III
IV
AREA OFFICES
I. PORTLAND
II. BILLINGS
III. ABERDEEN
IV. PHOENIX

representing a wide variety of light manufacturing business lines. The remaining questionnaires were returned as undeliverable, were incomplete, or were not returned. Several respondents BIA identified as being interested in locating on a reservation told us that they should not have been so identified and did not complete the questionnaire.

The firms completing the questionnaire varied in size of work force from a few to about 500 employees with an average of 95 potential employees per location. Using Standard Industrial Classifications and Department of Commerce 1972 industry statistics, we estimated the potential economic impact of all 62 respondents to be $47 million in salaries a year. This estimate is somewhat conservative because it does not include an indeterminate amount of locally purchased services, supplies, and raw materials.

The total estimated payroll of $47 million equates to $7,900 per employee per year; however, the total potential economic impact is probably more than $47 million due to the multiplier effect. The multiplier is an economic concept which recognizes that as additional workers and outside investment are added to a region's (or reservation's) economy, the need increases for additional trade, service, and government activity to support this new economic activity.

A longer range positive aspect of the multiplier effect is that the increased economic activity stimulated by the initial site location will, in turn, induce additional development of the economy to provide the goods and services needed to satisfy increased local demand.

In addition to the potential dollar impact, the wide variety of light manufacturing business lines would also provide a stable labor demand which could contribute permanent Indian employment opportunities. Few of the respondents were engaged in extractive industries whose longevity depended on the supply of natural resources.

Most were associated with such businesses as luggage manufacturing, mobile-home construction, injection molding of plastics, and electronics. These types of businesses

require considerable capital investments. For example, the estimated cost per plant for investment of the types of businesses responding to our survey was about $1 million.

Attitudes toward reservations as location choice

Of the 62 businesses that responded to our questionnaire, 9 were already located on reservations, 10 were actively considering locating on a reservation, and 27 still retained an interest but were not actively considering locating on a reservation. Of the remaining 16 businesses, 15 were no longer interested in relocating and 1 did not comment. A total of 37 reservations were represented in the responses. We visited 6 of the 37 reservations mentioned; 43 percent of the responses we received related to these 6 reservations.

Our questionnaire solicited businessmen's views toward the effect that 13 factors had or would have on their location choices. We were interested in knowing (1) the relative importance businesses attached to the factors and (2) how the businesses rated the reservations they were familiar with in terms of the factors.

The importance of the 13 factors according to the business responses is shown in descending order in the following.

Location factors

Labor force availability
Facility requirements
Transportation requirements
Raw materials and/or supplies
Site location and development requirements
Geographic location
Financial and other assistance
Employee housing availability
Tax advantages
Proximity to markets
Population (market potential)
Social and community amenities
Climate

As indicated above, the most important factors cited (considered necessary) as affecting the choice of a location were labor force availability, facility requirements, and transportation. Such considerations as remoteness, employee housing availability, and site locations (which could be thought of as negative points in attracting businesses to reservations) were not considered important by the respondents. Even financial incentives were not generally considered to be critical factors for the reservations.

Attitudes of the businesses toward conditions on the reservations were positive to those factors they considered most important in a decision to locate. The reservations received good ratings on the availability of labor, facilities, and transportation (considered necessary or important by the businesses).

Most of the respondents said they had also considered nonreservation sites; 66 percent considered the reservation locations as competitive with the nonreservation sites.

BIA PROMOTIONAL EFFORTS

BIA promotional efforts were fragmented among the headquarters, regional, and area offices; each office generally acted independently. Although the Washington headquarters office was responsible for overall direction of field promotional activities, the office had not developed procedures or issued guidelines for systematic use by the field and area office personnel.

Two principal weaknesses were consistent in the promotional efforts--(1) attempts were made to attract businesses without first having an adequate understanding of how these businesses might fit into a reservations environment and (2) information available was not periodically updated or evaluated in an effort to increase the effectiveness of promotional efforts. As a result, program resources were not effectively used.

An Interior official told us that the Los Angeles and Chicago BIA field offices aimed their efforts at regional business firms while the headquarters staff concentrated

on national firms having branches and offices across the country. The Washington staff was also responsible for providing direction and administrative services to the field offices.

The Los Angeles office was responsible for assisting firms located west of the Mississippi River; the Chicago office helped the remainder. BIA area office personnel also did some promotional work, but this was generally limited to following up leads provided by the Chicago and Los Angeles offices, local utility companies, and the tribes.

The promotional efforts by both the headquarters and field offices primarily involved mailing campaigns. Mailing lists were compiled from various sources (such as State manufacturing directories and recommendations from associates) mostly on the basis of personal judgment rather than actual knowledge of how such industries might relate to reservation conditions. The Los Angeles field office effort involved blanket coverage of all California industrial businesses employing more than 25.

Although the field offices solicited businesses for locating to Indian reservations, we were told that any firms expressing interest were referred to BIA area offices for promotional followup. Inadequacies in the BIA area office promotional records surfaced in several responses we received from businesses. Although identified by BIA as businesses having an interest in locating on a reservation, several respondents indicated otherwise and were surprised that they were so identified.

According to a BIA headquarters official, all of the files on the identity and number of firms they communicated with were lost in the takeover and occupation of the BIA headquarters building in 1972. Recent BIA promotional effort has been limited to communication initiated by the tribes or walk-in contacts. No outreach promotional campaign is presently being conducted or planned.

Additionally, under a recent BIA reorganization, the headquarters staff serves only in a policy role and no longer directly controls field office operations--including

those promotional activities previously carried out by the Chicago and Los Angeles office. The field offices now report directly to the area directors. In commenting on this report, Interior said that BIA will provide whatever assistance or try to provide whatever resources a tribal government requests but will not unilaterally pursue economic development on Indian reservations. According to Interior, unless tribal authorities take the initiative, there will be no promotional efforts.

Promotional efforts not aggressive

The businessmen responding to the survey indicated that they had to actively pursue sources of information, partly because of BIA's passive rather than active promotional efforts. Also, several of the businessmen told us they lost interest in business development on Indian reservations because the Indians did not show an interest and did not encourage the businessmen. A BIA headquarters official also believed that tribal attitude and management were a hindrance to effective business development. EDA officials told us that tribal attitudes toward business development often change with tribal elections and therefore affect industrial development activities.

Although not all of the problems experienced by the respondents involved promotional efforts, many appeared to us to be the type which would be responsive to such efforts. By not effectively interfacing with business or following up on legitimate prospects, substantial economic development opportunities were lost or postponed.

The replies to 25 of the 62 completed questionnaires showed that the businessmen had encountered the following types of problems:

Type of problem	Number citing problem
Poor promotional efforts	8
Too much redtape	4
Reservation's poor economic environment	4
Lack of Federal or tribal interest	4
Not enough incentive to move	3
Unskilled or inefficient labor force	2

Specifically, some of their comments were:

--One respondent said he waited a year for a decision on financial assistance and then decided to locate elsewhere; 6 months later he was told that the needed assistance was available.

--Another respondent said that he believed that BIA and the tribal councils could have been more aggressive in publicizing their needs for new business startups on available sites. It was unfortunate that the firm wanting to locate had to take the initiative. Nevertheless, his aim was to eventually start up his business on a reservation.

--A third respondent had the impression that the Indian leadership he had come in contact with was afraid to be aggressive in its promotion of industry. There was much evidence of a general lack of cohesiveness among the tribal leaders.

The type of promotional competition which reservations face in the marketplace is illustrated by the efforts of a nationwide real estate firm which developed two industrial parks in Phoenix, Arizona, north of the Gila River Reservation's three industrial parks. Company officials told us that an indepth study of park locations is performed before

they select a specific site. The study includes an evaluation of the availability of transportation and other utilities. They also consider the supply of manpower, sources of financing, existing tax rate structure, and trends in the local business economy. A public relations firm was hired to promote the industrial parks. It prepared colorful multipage pamphlets containing economic information on the parks and surrounding areas.

Local real estate firms were used to attract tenants. For example, any broker in the Phoenix area who is responsible for referring a tenant to the park receives 5 percent of the first 5 years' rental income if the tenant locates in the park. If the tenant decides to purchase rather than rent, the broker is entitled to 6 percent of the sale price. Because it is easier to attract tenants to a park that is not completely empty, tenants are allowed to purchase land in the park during the early stages of development. The national firm's staff coordinated business site and plant design, engineering, construction, and financing to meet potential tenants' specifications.

An official of the firm told us that the two parks were constructed between 1965 and 1968. Information he gave us on park occupancy as of August 1974 showed that the oldest park was more than 97-percent occupied and that the other park was more than 89-percent occupied. In contrast, the three parks on the Indian reservations we reviewed, which were completed before 1968 and have been open for over 5 years, are only about 19-percent occupied.

Unreliable promotional literature

Our analysis of promotional materials and information available to businesses from BIA showed that the material was in some cases incomplete, outdated, and/or unreliable.

BIA's guidelines require area office industrial development specialists to provide current economic and manpower resource data to headquarters and industrial development field offices. The guidelines do not specify, however, the frequency of this information flow or how the information should be gathered or its form.

A BIA area office industrial specialist told us that promotional material concerning a reservation was generally not available. When it was, the material was too old to be effectively used. He said that the last promotional material he had available from BIA was dated 1966.

BIA's Chicago industrial development specialist told us that he updated, whenever he could, the information fact sheets on each reservation. He said that he expected area office personnel to send him updated information, but this has not worked out very well. Some of his information was as much as 5 years old.

Some examples of the inadequacies we noted in the promotional material follow.

--Promotional material used by BIA's Chicago industrial development staff during 1974 for the Blackfeet Reservation indicated that air service into the area was provided by West Coast Airlines. We noted, however, that West Coast Airlines has since been renamed Hughes Airwest and has not provided air service to the area for at least 4 years.

--Reservation population was shown to be about 3,000 residents in promotional material used during 1974 describing the Yakima Reservation. The population for 1973, however, was about 6,300 residents. In addition, the promotional material indicated that air service, which was discontinued in 1966, was still available.

--A BIA official said that promotional material describing the Gila River Reservation's three industrial parks included outdated economic data, such as the cost of power. Another agency official said that the reservation's labor, employment, and population statistics were also inaccurate.

--The promotional material did not describe the skills of the unemployed on the San Carlos Reservation.

EDA PROMOTIONAL EFFORTS

Past EDA promotional activities included two consultant contracts to develop and implement a mail campaign. The contractors mailed information to a number of firms concerning

business opportunities on Indian reservations where EDA had funded industrial parks. The firms were identified from manufacturers directories in such heavily industrialized States as California and New York.

EDA officials told us that the results of the contractors' mail campaign were poor and that as a result no new businesses located on a reservation. Consequently, in November 1973, EDA established an Industrial Development Office to help attract businesses to Indian reservations and to help existing reservation businesses continue operations. The office is staffed by three professionals and has an operating budget of about $110,000. An EDA official told us that BIA's promotional program was considered to be inadequate for drawing businesses to EDA's industrial park projects. EDA considered its efforts essential to protect its investment in the reservations.

The group's efforts to date have been to (1) identify (based on a series of EDA in-house studies) the type of business best suited to the Indian reservation, (2) develop economic profiles of growth areas in and around reservations, (3) obtain data on business interest in these areas, and (4) initiate a mail promotion campaign directed to those industries most interested in the reservation growth areas.

We were told that the EDA staff began by concentrating on California firms having annual sales exceeding $5 million; employing over 100 employees; and engaging in electronics, metal fabrication, plastics manufacturing, or machine tools. These industry types are similar to those which responded to our business survey and, in general, were positive in their attitudes toward Indian reservations as potential location choices. (See pp. 12 and 14.) Maps showing the location of industrial parks and general socioeconomic information are mailed to all prospects. Additional information on particular reservations sites is provided to interested businesses.

As of January 1975, EDA's mail campaign and personal followup on responses had resulted in four firms' locating on a reservation. Six other prospects had been identified for five reservation locations, and tribal grant applications were being processed to help finance building construction for the six new businesses. EDA officials told us that they

have met with BIA to discuss this promotional campaign, but no agreements have yet been reached of whether EDA's promotional efforts will be expanded to cover all Federal promotional activities for reservation economic development.

RESULTS OF OTHER STUDIES

Consultant's study

A consulting firm's report prepared in 1972 for EDA provided an evaluation of industrial development efforts on Indian reservations. The firm noted that the literature used to promote reservation sites was not adequate and that it was insufficient to aid the business prospect in determining whether a proposed site met his needs. Labor availability, productivity, and costs were poorly documented. The consultant said that basic literature about the sites should be prepared and updated yearly. The report suggested that Federal efforts had been hampered by fragmentation of authority, responsibility, and performance and by lack of timeliness in decisionmaking. Further, it stated that, to those outside the reservation, tribal officials appeared to lack the necessary commitment, attitude, and understanding of fundamental factors involved in industrial development.

EDA studies

EDA has been concerned about the adequacy of promotional efforts on Indian reservations and their effects on attracting businesses to EDA-financed industrial parks. In an effort to evaluate its economic development programs, EDA conducted two studies; one study was concluded in 1972 and the other in 1973 (with an update in 1974).

Both studies recommended that, if Indian reservation industrial parks were to be successful, EDA would have to assume greater responsibility for industrial promotion. As indicated earlier (see p. 22), EDA has initiated promotional efforts.

CONCLUSIONS

Many factors, both social and environmental, make it difficult to attract industrial and commercial enterprises to Indian reservations. Notwithstanding the diffi-

culties, many businesses responding to our survey questionnaire indicated interest in locating on reservations. We believe that more could be done to better identify such firms and to focus limited program resources on those industries which are more apt to choose reservations as location sites. Other possible improvements include providing better and up-to-date promotional material; better and closer working arrangements among the Federal, tribal, and business representatives; and aggressive program administration.

EDA's present effort appears to be a step in the right direction, but it is not enough. It is limited by its focus on EDA's industrial parks only and by the time and money a small headquarters staff can provide.

RECOMMENDATIONS

We recommend that, to increase the effectiveness of the Indian reservation promotion program, the Director, Office of Management and Budget, work with the Secretaries of the Interior, Commerce, and Agriculture; the Administrator, Small Business Administration; and other agency heads he deems appropriate, to establish an interagency committee which would

--identify industries which are most likely to consider locating on a reservation,

--aggressively encourage and assist those firms identified as having an interest in locating on a reservation, and

--insure the availability of current promotional literature and materials.

CHAPTER 3

NEED FOR IMPROVED PROJECT EVALUATION AND MONITORING

EDA and SBA spent about $23 million from 1966 to 1973 to fund the 28 major economic development projects we reviewed at the 7 reservations we visited. BIA contributed over $800,000 to the projects in on-the-job training funds. Of these 28 projects, 15 had ceased operations and 9 were in financial difficulty as of May 1974. Consequently, over 1,300 of the nearly 1,700 planned permanent employment opportunities for Indians were lost or in danger of being lost. Realization of the planned jobs would have reduced the 7 reservations' unemployment of 2,415 by about 70 percent. As of May 1974, the Federal Government sustained losses of about $2.2 million. The tribes also incurred financial losses.

In our opinion, EDA and SBA have not adequately evaluated the feasibility of proposed business ventures on reservations before providing financing assistance. In some cases these agencies did not require the development of all necessary information to permit a good evaluation of the business ventures' prospects. In other cases the agencies provided financing without requiring the resolution of known problems.

Once financing had been provided, EDA and SBA did not monitor the business ventures' operations to promptly identify deficiencies in these operations and to provide the assistance needed to correct them before they became so severe that they caused operations to be discontinued. Excessive turnover of Indian labor was a problem encountered by most of the federally funded projects.

In our opinion, the provision of competent technical assistance, particularly during the early stages of operation, can substantially improve the prospects for success of high-risk ventures.

Evaluations by EDA and SBA also identified a need for improvement in project evaluation and monitoring procedures.

PROJECT EVALUATION AND MONITORING

By the very nature of the programs, business ventures funded by SBA and EDA generally involve greater risks than do the typical new business ventures financed through conventional sources. Thus, there is a strong need for careful evaluation of all factors bearing on the feasibility of these business operations so that chances of their success can be maximized.

By law EDA is a high-risk investor. EDA officials told us that major attention is paid to job development potential and that only minimal qualifications are required in the various aspects of the investment package. High-risk-business failures are not unique to reservations, but the reasons for failure are found in greater variety and more frequently there. Changing markets, poor management, and related factors are major causes of business failure. The regional staffs for both agencies had responsibility for determining a proposed project's eligibility, feasibility, and development priority and for assisting applicants to properly complete applications for financial assistance. If the project application was for loan moneys, the project proposal had to demonstrate repayment ability.

The agencies' headquarters staffs reviewed the applications, after regional office approval, for completeness and compliance with funding requirements. Following headquarters office approval, the regional office staff assumed responsibility for reviewing design and equipment specifications, monitoring construction, and insuring compliance with agency project construction and operation requirements.

Each agency's manual of operations sets forth the types of businesses eligible for development assistance, the loan or grant application processing steps, and the operating requirements for approved projects. Although EDA's guidelines established the specific circumstances in which feasibility studies were required to be submitted with a project application, SBA required feasibility studies when the regional office "determines it to be necessary." EDA's guidelines, however, did not specify what information should be included in feasibility studies; SBA's did.

In general, the agencies' procedures and practices for project evaluation and monitoring did not change in any material respect during our review. In most cases information available to us indicated that projects were funded even though questions concerning the projects' feasibility remained unanswered. Although funding agencies evaluated projects to determine whether a market existed for their product, they generally did not perform an indepth evaluation to insure that the applicant had identified marketing strategies, reputable suppliers, or alternative sources of capital.

For the 28 projects we reviewed, sufficient documentation was not available for us to determine what information the funding agencies relied on during preapproval review for 11 projects. Our review of the 17 projects where sufficient documentation was available showed that for 16 of them there was no information concerning the projects' operating plans. For example, the supporting information submitted with funding applications for those projects which had failed was not specific concerning one or more of the following areas.

--Raw material supplies.

--Labor force availability and skills.

--Working capital.

--Plan for management services.

In our opinion, this information is necessary to provide assurance that only those projects with a reasonable opportunity for survival are funded. In some cases information was available which should have raised doubts about the viability of the projects being reviewed, but this information apparently was not adequately considered.

Applicants for SBA and EDA assistance are considered by private lenders to be high-risk borrowers. Because of this high risk, intensive followup by the funding agencies is necessary to monitor project operations and provide

assistance if needed. EDA and SBA guidelines required maintaining followup with borrowers after the project funding was approved. For example, SBA's guidelines provided that:

> "Loan servicing reflects a positive outlook of continuing effort to meet the problems of the small business involved. It is based on the premise that loan administration is a matter of 'full service assistance' to SBA borrowers. The borrower provides the Agency with a complete and continuing picture of his operation which, together with data developed within and without the Agency, supplies SBA with sufficient basic information on which to make sound suggestions and, as necessary, to take corrective action. This knowledge is used positively and to the fullest advantage with emphasis throughout on strengthening or saving loans and businesses."

EDA and SBA guidelines further specified that primary servicing effort be directed toward problem loans--for example, borrowers who were not submitting the required financial statements. Problem loans are often identified by adverse financial and operating conditions in borrowers' financial statements. The guidelines required that onsite visits be made as determined necessary by the official responsible for the particular loan(s).

SBA provided funds for 14 of the 28 business firms we reviewed. Generally, the borrowers were not submitting the required financial information to SBA. SBA officials responsible for monitoring seven of the projects told us they were not trying to obtain the required financial information and were not making onsite visits because of a lack of manpower.

EDA provided funds for the remaining 14 projects. Generally, there was not enough documentation in the project files to determine specific actions EDA took to comply with their guidelines. However, EDA officials told us that very little postfunding monitoring was done due to a lack of manpower and the uncertainty of future funding for the EDA program.

PROBLEMS ILLUSTRATED BY SELECTED PROJECTS REVIEWED BY GAO

The following examples of projects which encountered difficulties in operating successfully illustrate the need for realistic consideration of complete information on project feasibility in deciding whether to fund proposed projects and continual monitoring.

Furniture factory

EDA funded this project through a $194,805 direct loan in 1966 and a loan guarantee of $360,000 in 1967. The project was to establish a furniture-manufacturing factory on the Yakima reservation to provide permanent employment for 140 Indians. The Yakima Indian Tribe provided the land and constructed the building for the factory. BIA provided over $500,000 in on-the-job training funds during the period the firm operated. The factory closed in 1971 for lack of a market.

Acting for EDA,[1] SBA evaluated the project and, in April 1966, recommended the project's approval to EDA.

In May 1966 the SBA regional office in the area which contained about one-half of the applicants' proposed market submitted information to SBA headquarters raising serious questions concerning the project's economic feasibility. This information pointed out that industry representatives in the planned marketing area did not believe the firm's marketing strategy was feasible. In its letter to SBA headquarters, the SBA regional office stated:

> "It would, therefore, appear that the basic assumptions used for this proposal are not entirely correct and that while there is a possibility of success, there is also a great risk of failure in view of the intense competition presently in being. Furthermore, the * * * proposed method of operation would not provide a competitive service comparable to existing companies."

[1] SBA, upon request, performed project evaluations for EDA.

SBA headquarters believed that, since the tribe was supplying the land and building (cost of building estimated at $750,000), the tribe was exposed to greater risk than EDA. SBA believed the possible positive economic impact of the project was worth the risks. The documentation available did not show whether EDA was notified of the possible adverse market information.

The anticipated market did not materialize, and the factory's production was largely retained in inventory. Because of insufficient sales, the operation ceased in 1971.

In 1972 the Yakima Tribe purchased the machinery and equipment financed by the EDA direct loan for approximately $217,000, including a $41,940 prior lien held by a bank. EDA paid $267,022 to a bank for its obligation under the loan guarantee. The tribe reopened the factory in 1973 as a tribal operation. In August 1974 the plant comptroller told us that the operation had borrowed an additional $650,000 from the tribe and was operating at a loss because of difficulties in capturing a share of the market.

Feed mill

Three non-Indians originally submitted the loan application to EDA's predecessor agency (Area Redevelopment Authority) in 1963 to establish a feed mill and alfalfa dehydrator plant on the Crow Reservation, and EDA ultimately approved the loan in 1966 for $667,000.

In 1967, after unsuccessfully trying to get a national firm to lease and operate the mill, the applicants decided to eliminate the dehydrator portion of the project. In 1968 EDA approved the revised project for $352,000. The applicants also obtained an SBA working capital loan guarantee for $70,000 in October 1969.

After loan approval in 1968, but before its disbursement in October 1969, one of the officers of the feedmill died. According to an EDA report prepared after the project quit operating in January 1971, the man had been the key to the project's success; after his death the firm was left without market, management, or raw materials. EDA's Western regional office, as pointed out in the 1971 report,

had recommended that the loan not be disbursed. This report also pointed out that regional counsel concurred with this recommendation because it was apparent after this man's death that the possibility of repayment was remote at best.[1] EDA headquarters disbursed the funds anyway.

According to the EDA report, the feedmill closed in January 1971 because of poor management and lack of working capital. In addition, during the firm's first year, difficulties were encountered in keeping Indians employed. For example, of 14 hired, all but 1 had quit.

BIA expressed concern to the firm's management in April 1969 because only one Indian was employed and suggested that the firm use BIA's on-the-job training program. The plant manager refused because of the excessive amount of paperwork involved and because of past difficulties with Indian employees.

A different private firm assumed operations in 1971. At the time of our review, the EDA loan was delinquent, SBA had lost $25,000, and the tribe had lost $56,000.

Fish reduction plant

An application to EDA for a $650,000 direct loan was submitted in May 1966. The applicants also requested a 90-percent guarantee of a $150,000 working-capital loan. The project on the Makah Indian Reservation was to establish a floating fish reduction plant at Neah Bay, Washington, to produce a fish protein supplement for animal food. The raw material was to be scrap fish, which would be chemically processed into a high-protein, virtually odorless meal.

Acting for EDA, SBA evaluated the project application and recommended in December 1966 that it be turned down because there was no evidence that enough raw materials

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[1]Both EDA and SBA regulations regarding loans require a repayment ability. Further, if, after approval but before disbursement, repayment ability is jeopardized, the agencies can take action to protect the Government's interest, including holding up funding until repayment ability is demonstrated.

could be obtained to operate the plant at the break-even point. The feasibility study, prepared by an SBA valuation engineer, pointed out that the estimated quantity of raw material to permit the plant to break even was 170 tons of fish a day. The report also pointed out that the plant's success depended on having an adequate number of fishing vessels under contract.

The SBA evaluator said that it would be extremely doubtful if the applicant would be able to interest enough fishermen in supplying enough fish to operate at a profit because the market value of the scrap fish was only 1 cent a pound while food fish were selling for 50 to 60 cents a pound.

EDA officials approved the project because the fishermen's marketing association in the area stated that such a plant would be an asset to their vessel owners and that they would support it in any way they could. However, after approval, but before funding, EDA learned that difficulties might be encountered in obtaining enough scrap fish to operate the proposed facility. Three members of the marketing association told the EDA area counsel that they would not sign contracts to supply the facility because they were food fishermen. One member of the marketing association's board of directors told the counsel that food fishermen make every effort to avoid scrap fish. Despite this information, EDA funded the project. EDA files contained no information to explain its basis for doing so.

As a result of EDA's decision to fund the project, approximately $140,000 of the guaranteed working capital loan was lost. In addition, we were told that the collateral for the $650,000 direct loan was sold for $88,500. The estimated 27 jobs to be created when the plant opened were never realized because the plant never operated for more than a few hours at a time from July 1968 through 1969.

Plastic cup plant

This project to manufacture plastic cups on the Gila River Reservation in Arizona was funded by two SBA loan

guarantees of $641,250 in 1969 and an SBA loan guarantee of $1,320,000 in 1970. After 3 years of operations, the company was dissolved through bankruptcy proceedings.

SBA conducted a series of in-house feasibility studies of the request for the working-capital and lease guarantee. The working capital study, dated August 1968, pointed out the following:

1. The saleability of the company's product in the Phoenix area was open to question since available market information pertained to a proposed facility in Georgia. The study recommended that additional information about the need for the product be obtained since other plants were producing the same product in the Phoenix area.

2. The productive capacity of the manufacturing machines was questioned because of their proposed operation during three continuous shifts. The study recommended that the number and capacity of machines and equipment being used be further evaluated because of the possibility of producing more than the firm could sell.

3. The organizers' continued commitment to the business was questionable because they would have little or no money actually invested in the business.

4. Ratios of supervision, quality control, and inspection personnel to production staff were considered to be too high.

The study concluded that it was not possible to make a final judgment based on the limited information relating to the request for the loan. Accordingly, the study recommended that additional information be obtained to insure the existence of a profitable venture.

The lease guarantee study, which included a review of the working-capital loan, was prepared by a Pacific Coast Area Office SBA official in October 1968. He concluded

that "pertinent information on this new venture is seriously lacking to the extent that repayment ability cannot be anticipated."

SBA headquarters officials approved the project because it was the first SBA project on the Gila River Reservation. According to an SBA official, the following factors lead to the bankruptcy.

--The firm's inability to compete with manufacturers of similar products in the Phoenix area because a major competitor lowered its wholesale price below the firm's production cost.

--Excessive administrative costs due to management's extravagance. Administrative salaries exceeded those originally proposed by $77,000 a year and expensive automobiles were obtained for management.

An SBA loan officer told us that SBA could not recover its losses by selling the equipment used as collateral because the equipment was specialized and because standard plastic cup equipment was available on the used-equipment market. As a result, SBA was able to obtain only about $150,000 when the equipment was sold. SBA lost about $530,000 of the two loan guarantees and $11,000 of the lease guarantee.

According to EDA officials, a manufacturing firm subsequently occupied the building and employed 100 people, 55 of whom were Indians.

Fishing fleet

In 1967 SBA funded a project on the Makah Reservation for $347,000 to provide 10 commercial fishing boats to enable 10 Indians to establish themselves in the commercial fishing business. This was to strengthen the Indians' fishing skills, thereby providing more jobs and a broader business base for the Makah Indian Tribe.

SBA approved the project, primarily because the Makah Tribal Council guaranteed repayment of the loan. A further consideration was that the Makah Tribe had prepared a fleet

operation plan to provide for the fishing boats' maximum use and proper operation, but the plan was not implemented. As a result, each boat operator functioned loosely without goals or direction.

The fishermen encountered many mechanical problems with the boats and consequently did not fish much of the time. For example, during 1972 the boat doing the most fishing was out a total of only 552 hours. Assuming an 8-hour day, the boat was out only about 69 days of the year. Representatives of the engine manufacturer said that some of the problems may have arisen from the lack of a systematic maintenance program.

Because fishermen did not fish enough, loan payments on the boats were not made on schedule. Only about $4,800 of the nearly $56,000 loan principal required to be repaid over the initial 5-year period was actually repaid. The $4,800 was repaid by only 3 of the 10 boats.

In addition to the lack of an operating plan, an accounting system had not been established. As a result, SBA was unable to obtain the periodic financial statements which it relied on to monitor project progress since project startup in 1968. Yet assistance was not provided until 1972 when funding was obtained through OMBE for a management consultant firm to evaluate the Makah fishing-fleet operations and to develop a plan which would enable the fleet to operate profitably. The resultant plan, implemented in June 1973, provided for a business manager and an accounting system.

An SBA official told us that, since implementation of the plan, the fishing fleet's operations and repayments have improved. Although the loan is not yet current, the fishermen are fishing more and making payments on schedule.

EXCESSIVE TURNOVER OF INDIAN LABOR

A problem encountered by most of the federally funded projects was excessive turnover of Indian labor. The turnover was caused by Indians' inability to adjust readily to a structured work environment, leading to excessive absenteeism and, finally, employment termination.

This points out the desirability of a systematic means of maintaining communication with employed Indians. Such a system of followup could prevent problems from developing to the point where an Indian quits employment. Federal and tribal officials told us that they believed increased counseling could help Indians make the transition from a nonwork to a work lifestyle. For example, an official at one employment security office we visited told us that he had established an "employer liaison" involving an on-the-job training program. When an Indian did not report for work, the employer contacted the liaison. The liaison then went to the Indian's home and encouraged the Indian to report. After 2 months there were no more problems with absenteeism.

Only one of the reservations visited--Warm Springs--had established an office at a central location which was cooperatively staffed by the tribe and by Federal and State agencies to provide counseling to reduce turnover among employed members of their tribes. Although it was too early to assess the effectiveness of this effort, Federal and tribal officials thought it would serve to reduce turnover among the employed Indians.

IMPROVEMENTS RECOMMENDED BY OTHER STUDIES

EDA study

EDA funded an evaluation of its selected Indian reservation program in 1971. The study was performed by a consulting firm, and the report was issued in July 1972. The consultants examined each EDA-approved project on all 16 selected reservations, including the 4 we visited (Blackfeet, Crow, Gila River, and San Carlos).

The consultants pointed out that, although EDA should consider providing equity capital for reservation business ventures, such capital should be made available only after careful financial analysis of proposed business projects. The consultants suggested that projects be more carefully monitored.

The consultants recommended 21 specific actions EDA should initiate to improve the effectiveness of reservation economic development projects. The recommendations included

--increasing amounts of technical assistance and/or planning funds to business enterprises;

--encouraging more involvement by tribal members in designing and conducting technical assistance projects;

--providing critical business information to tribes, such as alternative sources of capital, reputable suppliers, and marketing strategies;

--proceeding only with projects resulting from well-conceived development plans;

--providing assistance to insure that reservation tourism complexes are effectively managed and promoted; and

--implementing an evaluation and monitoring system on a project-by-project basis.

The consultants concluded that business undertakings must have management teams with demonstrable skills and experience as well as documented business strategies.

An EDA headquarters official told us that they have taken actions on some of the recommendations and are using others as the basis for current policy development.

SBA study

The Office of Program Planning and Evaluation, SBA, issued a report in June 1974 entitled "An Analysis of the Status on December 31, 1971, of Minority Recipients of Regular Business and Economic Opportunity Loans Made Between July 1, 1967 and June 30, 1970." The objectives of the study included (1) identifying factors relating to minority business success and failure and (2) recommending changes in SBA policies and operating practices related to

minority enterprise programs. Although the study did not cover programs in Indian communities, the conclusions and recommendations, in our opinion, are applicable to Indian areas.

The report contained eight major recommendations for actions SBA should initiate to improve operating practices in minority enterprise programs. The recommendations included

--establishing systematic followup of borrowers, particularly within the vulnerable 2-year period after financing;

--revising loan approval criteria to insure consideration of any specific management deficiencies identified and requiring a realistic plan to alleviate those deficiencies before approving a loan;

--providing an effective system to insure enough management counseling to all borrowers requiring such assistance; and

--reviewing and strengthening operating practices for obtaining periodic postloan financial statements.

The study concluded that the managerial characteristic which appeared to have the greatest effect on business success or failure was whether the applicant had previous business-decisionmaking experience.

CONCLUSIONS

By the very nature of the programs, business ventures funded by SBA and EDA generally involve greater risks than do the typical new business ventures financed through conventional sources. Thus, there is a strong need for careful evaluation of all factors bearing on the feasibility of these business operations to maximize the chances of their success. Changing markets, poor management, and related factors have been major causes of business failure. The provision of competent technical assistance, particularly during the early stages of operation, can substantially improve the prospects for success of high-risk ventures.

In our opinion, EDA and SBA have not adequately evaluated the feasibility of proposed business ventures on reservations before providing financial assistance. In some cases these agencies did not require that all necessary information be developed to permit a good evaluation of the prospects of the business ventures. In other cases the agencies provided financing without requiring that known problems be resolved.

Once financing had been provided, EDA and SBA did not monitor the operations of the business ventures to promptly identify deficiencies in these operations and provide the assistance needed to correct them before they became severe enough to discontinue operations. Excessive turnover of Indian labor was a problem encountered by most of the federally funded projects.

Federal economic development assistance will continue at a relatively high level during the foreseeable future under programs administered by several departments and agencies. (See pp. 3 to 7.) The lessons learned from this study and others which have preceded it are relevant to the success of future projects and clearly point to the need for a better effort by the Federal agencies to improve the prospects for successful operation of business ventures which they agree to finance.

The experiences and lessons learned under EDA's and SBA's programs should be especially beneficial to BIA since these programs are very similar to the loan and grant economic development assistance available under the Indian Financing Act of 1974.

We view the future Indian economic development effort as one whose effectiveness depends on cooperative arrangements among the agencies in reviewing existing procedures and developing and implementing improved procedures where warranted for approving and monitoring business and commercial development projects.

We believe these procedures should provide:

--Detailed guidelines for the information to be included in feasibility studies. Such information should include data concerning all factors relevant to successful operation, such as data on supply sources, labor availability and skills, sources and adequacy of working capital, management services, transportation facilities, and product markets.

--Critical evaluation by the funding agency with well documented recommendations of actions necessary to correct any identified problems that appear likely to adversely affect operation of the business.

--Clear documentation of the basis for financing any venture for which problems have been identified but not resolved.

--A plan for monitoring operations of the business venture and for providing technical assistance to promptly identify and resolve problems that occur, particularly during early stages of operation.

--Followup to insure that the procedures are properly implemented.

The Secretary of the Interior should identify solutions to the problems of excessive turnover of Indian labor. The establishment of a coordinated postemployment counseling program to help the Indian worker adjust to a structured work environment appears to be one possible solution.

RECOMMENDATIONS

We recommend that, to provide greater assurance of successful operation of new federally financed business ventures on Indian reservations, the Director, Office of Management and Budget, work with the Secretaries of the Interior, Commerce, and Agriculture; the Administrator, Small Business Administration; and other agency heads he deems appropriate, to establish an interagency committee which would develop procedures for each agency's use in making systematic

evaluations of proposed business and commercial development projects and in providing timely monitoring of, and competent technical assistance for, businesses receiving Federal financing assistance. These procedures should provide for each of the five factors discussed in the conclusions section above.

We recommend that the Secretary of the Interior have the Commissioner of Indian Affairs identify solutions to the problems of excessive turnover of Indian labor and consider the establishment of a postemployment counseling program as one possible solution to helping the Indian worker adjust to a structured work environment.

CHAPTER 4

NEED FOR LEADERSHIP ROLE IN DIRECTING AND COORDINATING INDIAN ECONOMIC DEVELOPMENT

As indicated in the earlier chapters, several Federal agencies administer programs under which Indians can obtain economic development assistance. Within this proliferation of programs, each agency acts independently according to differing mission responsibilities, program goals, and administrative procedures.

Responsibility for coordinating Federal economic development assistance efforts is fragmented. It is especially unclear what roles each agency should have in dealing with Indian needs in the context of their overall mission and program responsibilities. For example:

--The President has given the Secretary of Commerce, through OMBE, the responsibility for coordinating Federal programs for strengthening minority business enterprises, including Indian enterprises.

--The Congress has given the Secretary of Agriculture, through RDS, the responsibility to provide leadership and coordination of the Federal Government's efforts to develop rural areas where most Indian reservations are located.

--The Congress has given the Secretary of the Interior, through BIA, the responsibility for helping the Indians obtain a standard of living from their own productive efforts comparable to that enjoyed by non-Indians in neighboring communities. But BIA's responsibility for coordinating all Federal programs which affect this effort has not been specified.

Although Agriculture, Commerce, and SBA have established points of contact within the agencies for Indian assistance, no formal mechanism has been formulated to coordinate overall planning, funding, and administration of Federal projects. Our review suggests a need for such a mechanism.

An EDA headquarters official told us that coordination of EDA's programs with BIA has been on an informal basis. Furthermore, he said that EDA has tried every available means to cooperate with BIA in developing a viable industrial development program but that efforts have received little more than acknowledgment from BIA. He also said that the respective programs were administered differently but that the agencies' efforts tend to overlap. A BIA headquarters official told us that coordination efforts have been difficult because agencies have not been able to agree on the best approach in assisting Indians.

In December 1974, BIA and EDA held a conference of Indian leaders, business leaders, planners on Indian reservations, and representatives of other Federal agencies. According to BIA and EDA officials, the conference was to result in a joint EDA-BIA plan for Indian economic development. As of March 1975, a plan had not been formulated pending meetings among EDA, BIA, and the Office of Management and Budget.

A Department of Agriculture headquarters official told us that a new effort to coordinate Agriculture's Indian assistance activities was initiated in November 1974 with the establishment of an "Indian Desk" within Agriculture's Office of Equal Opportunity. The responsibilities of the Indian Desk include establishing Indian contacts, handling Indian communications, conducting surveys, coordinating agriculture assistance to Indians, measuring program effectiveness, researching problems, maintaining information files, and keeping the Secretary informed.

In commenting on our report, Agriculture officials said that FmHA has developed an Indian outreach program to improve the delivery system and services to Indian people, with emphasis toward Indians on reservations or owning land in trust or restricted status. Each FmHA State director has appointed an Indian coordinator to carry out the Indian outreach program and activities relating to Indians.

According to Agriculture officials, their Office of Economic Opportunity is developing a Department-wide outreach effort, including the publication of an informational brochure for Indians describing its programs. Meetings have been held

between various Indian groups and Agriculture agencies to discuss agricultural and other industrial projects planned by the tribes.

In the first half of fiscal year 1975, Agriculture's Office of Equal Opportunity conducted four comprehensive surveys of selected reservations and groups. The primary purposes were to identify Indian needs, including commercial and industrial development, which could be met through Agriculture programs. A regular program of surveys is now envisioned. Agriculture officials said four surveys have been conducted as of March 1975 which identified problems at four locations. Agriculture plans followup surveys to see if problems noted in the first survey have been eliminated.

The Office of Management and Budget has drafted a proposal to establish a domestic council committee on Indian affairs to fulfill an internal Federal policy coordination function. The proposal provides for membership by several major departments and agencies and for the formulation of an Indian consultative mechanism. As of May 1975, the proposal had not been finalized. We favor establishing such a committee and believe that the final proposal should specify that the committee's responsibilities include clarifying Federal policy on Indian economic development assistance responsibilities of the various Federal agencies and coordinating program efforts.

CONCLUSIONS

Action is needed at this time to decide how Federal agencies collectively will respond to Indian economic development needs and to assign to one agency the role of directing and coordinating Federal programs affecting economic development efforts. This would be beneficial because a focal point would exist for coordinating and maximizing the benefits of the various efforts and because one agency could have the responsibility for periodically evaluating the effectiveness of the efforts and could develop and recommend means for improvement. Although the logical placement of the Federal lead responsibility for Indian economic development would seem to be in BIA, its comments (see pp. 47 to 50) suggest a reluctance to initiate overall corrective actions. Consequently, we question whether Interior, specifically BIA, would vigorously pursue Indian economic development efforts.

In commenting on this report, Agriculture also shared our concern with the placement of leadership responsibility in Interior. Agriculture noted a need for a strong, active oversight group to review and monitor proposed projects, undertake resolution of interagency conflict or problems, and guide and advise the coordinating agencies.

RECOMMENDATIONS

We recommend that the Director, Office of Management and Budget, require that a proposal by his office to establish a domestic council committee on Indian affairs specify that the committee's responsibility would include efforts to (1) clarify Federal policy concerning Indian economic development assistance responsibilities of Federal agencies, (2) assign responsibility to a single agency for directing and coordinating program efforts, and (3) work with the Secretaries of the Interior, Commerce, and Agriculture; the Administrator, Small Business Administration; and other agency heads he deems appropriate, pending establishment and operation of the committee, to develop proposals for the committee's consideration as recommended on pages 39 and 40.

CHAPTER 5

AGENCY COMMENTS AND OUR EVALUATION

In commenting on this report, all five Federal agencies generally agreed with the facts and conclusions and, except for Interior, supported the recommendations for improvements in Indian economic development programs.

Interior disagreed with the recommendations and was reluctant to initiate corrective actions without a showing of tribal initiative on a reservation-by-reservation basis.

The substantive points included in the agency comments and our evaluation are presented in the following sections. Some of the agencies also provided comments primarily directed toward updating and expanding information in the report; these have been recognized where appropriate.

DEPARTMENT OF AGRICULTURE

In its February 3, 1975, comments (see app. I), Agriculture said it believed the report to be an excellent product of considerable importance to Indian development efforts. It expressed concern, however, with the suggestion for proposed placement of leadership responsibility in Interior. Among other things, Agriculture believed that more expertise, resources, and experience in industrial development exists in other agencies which might carry out these functions more efficiently. It recommended establishing an action oversight group to represent all agencies mentioned in the report and to be responsible for interagency problemsolving in business and industrial development on Indian reservations, regardless of where the coordination responsibility was placed. This recommendation parallels our recommendation on page 45.

Because Interior appears reluctant to assume a leadership role in vigorously pursuing economic development efforts, we agree that placing this responsibility within Interior may not result in needed actions.

DEPARTMENT OF COMMERCE

In its February 6, 1975, comments (see app. II), Commerce supported our recommendations and stated that it would cooperate fully in implementing those recommendations which apply to EDA.

DEPARTMENT OF THE INTERIOR

In its January 27, 1975, comments (see app. III), Interior generally agreed with our facts and conclusions. However, it did not agree with our recommendations.

While Interior did not object to establishing a formal coordinating mechanism and said it would cooperate fully, it did not perceive what contribution a group at the Washington level would make or what problems it would address. Consequently, Interior, unlike other agencies, said it did not intend to advocate that approach.

We directed our proposal toward establishing Federal oversight responsibility for Indian economic development within an organizational structure which could foster a consistent goal and rational approach for implementing the program among the Federal agencies. As stated in this report, within the proliferation of Federal programs each agency acts independently and according to differing mission responsibilities, program goals, and administrative procedures. Also, it is unclear what roles each agency should have in dealing with Indian needs. Agriculture, Commerce, and SBA shared our view that the Washington level needed a formal coordinating mechanism. The Office of Management and Budget said that improved communications among the field staffs may also be needed.

Interior did not agree with our recommendation to develop a systematic broad-scale program cooperating with Commerce and stated that BIA intends to abandon the broad-scale approach and target efforts to individual reservation situations. Although agreeing that its past promotional efforts lacked aggressiveness, used unreliable information, and did not focus on identifying and encouraging firms most compatible with reservation conditions, Interior stated that a more fundamental problem was trying to attack the problem

on too broad a basis by simultaneously trying to promote economic development on all reservations without enough regard for the individual conditions. Interior stated it would try to provide whatever assistance or resource a tribal government requests but that it would not pursue economic development on Indian reservations unless tribal authorities took the initiative.

Our proposal for a broad-scale program is not inconsistent with Interior's intention to target efforts to individual reservation situations. We agree that individual conditions which exist among the reservations must be considered in any promotional program, but its scope and direction should be broad enough to reach those types of businesses most compatible with reservation development and, whenever possible, to channel this economic potential into the appropriate reservations. The key problem we saw with BIA's broad-scale promotional program was that it lacked the focus and direction needed to adequately match industrial and commercial prospects with reservation conditions and development potential.

Although the scale of EDA's program is somewhat limited by money and manpower, it follows a more focused promotional pattern and it is along the lines we advocate for a broad-scale program.

We recognize that the role of tribal governments is of primary importance in achieving economic development of Indian reservations. However, to undertake no promotional efforts except in response to requests from tribal governments assumes that tribal governments are keenly aware of the merits of a promotional program and that they will request such Federal assistance. We do not see how BIA, without a fully operative promotional program, could adequately respond to tribal requests for promotional assistance.

Because of inherent limitations and difficulties in the effective economic development of reservations, the Federal Government must take the lead in promoting such development to insure that the various program resources are utilized to the fullest possible extent in alleviating the poor economic conditions on the reservations.

Interior believed that more or different procedures for monitoring and assisting businesses receiving Federal financing did not seem to be the answer and did not concur with our proposal for establishing an interagency committee to develop such procedures. It believed that the principal problem appeared to be a failure to execute the procedures which already existed.

Part of the problem concerned agency failures in following established procedures. However, inadequacies and inconsistencies existed in the operational requirements which could best be rectified through an interagency effort. Such an effort could build on the experiences of several program administrators and could produce a sound and consistent approach to Indian economic development assistance. Some specific procedures which should be developed are detailed on page 40.

Interior said that it has no plans to establish an in-house postemployment counseling program such as we suggested. Interior pointed out that BIA has several programs addressing the problem of Indian labor force reliability and, under existing budget levels, did not see how the level of effort could be increased.

The programs Interior referred to are employment and training oriented and are not programs for helping individuals adjust to a work environment or developing a better interface between the employer and the Indian worker. The fact that labor reliability problems existed on several reservations at the time of our review is proof, in our opinion, that the programs Interior identified in its comments are not providing solutions to the labor problem and that other measures are needed.

The real issue is to identify, through study, solutions to the problems of excessive turnover of Indian labor. We suggested the post counseling program as one possible solution to helping the Indian worker adjust to a structured work environment, but this program is not necessarily the only or the best solution to this problem. Consequently, the Federal Government should take the lead in seeking solutions to this problem. Although we agree that a showing

of tribal initiative is important, we question Interior's position of waiting until the tribe shows initiative before BIA will act.

OFFICE OF MANAGEMENT AND BUDGET

In its January 15, 1975, comments (see app. IV), the Office of Management and Budget stated that the proposal for an interagency committee on Indian affairs was still being reviewed. It noted that the current proposals for such a committee envision a body comprised of headquarters representatives focusing primarily on policy issues. The Office of Management and Budget said it was not likely that the entire range of operational coordination issues cited in the report would be handled by such a committee. It believed that some of the issues appeared to be more appropriately conducted through improved communication among the field staffs of the agencies involved.

We intended the committee's role to be policy formulation--to clarify the Indian economic development assistance responsibilities of Federal agencies and to coordinate program efforts. We recognize that some of the operational issues would be more appropriately resolved by program administrators and, accordingly, we have directed specific recommendations to them for their actions.

SMALL BUSINESS ADMINISTRATION

In its January 2, 1975, letter (see app. V), SBA commented on our proposal to form an interagency committee consisting of the Secretaries of the Interior, Commerce, and Agriculture and the Administrator of SBA to develop procedures for each agency's use. SBA concurred with this recommendation and said it would be pleased to participate with these agencies on such a committee. However, SBA believes that, until the factors inhibiting reservation economic development are recognized and understood on a tribe-by-tribe and a reservation-by-reservation basis, the Federal Government's attempts to leave economic development to the American Indians will be inadequate. SBA suggested that the Secretaries of Health, Education, and Welfare; Housing and Urban Development; Labor; and Transportation be included in the interagency committee to offer ideas on education, welfare, labor training, housing, and transportation.

We agree that individual reservation conditions and varying needs greatly affect economic development potential, and we agree that participation by appropriate department heads has merit. This report recommends that the Director, Office of Management and Budget, establish an interagency committee comprising those agency heads he deems appropriate.

CHAPTER 6

SCOPE OF REVIEW

Our review evaluated the effectiveness of Federal efforts to improve economic conditions on Indian reservations, the problems encountered, and opportunities to improve these efforts.

We made our review at headquarters offices of BIA, EDA, FmHA, OMBE, RDS, and SBA in Washington, D.C.; at BIA's area offices in Aberdeen, South Dakota; Billings, Montana; Phoenix, Arizona; and Portland, Oregon; at EDA's regional offices in Denver, Colorado, and Seattle, Washington; at EDA State offices in Phoenix, Arizona; Portland, Oregon; and Helena, Montana; at SBA's regional offices in Denver, Colorado, and Seattle, Washington; at SBA district offices in Helena, Montana; Phoenix, Arizona; and Portland, Oregon; and at BIA's agency offices at each of the seven reservations we visited. EDA included four of the seven reservations in its 1967 list of reservations identified as having the most potential for successful economic development.

The 28 economic development projects we reviewed on the seven reservations accounted for more than $27.6 million of BIA's, EDA's, and SBA's expenditures for developing the economy of Indian reservations from 1966 through 1973. The projects included all of the major federally funded business and commercial development projects initiated on the seven reservations during this period.

We reviewed the applicable policies, regulations, procedures, and practices pertaining to each agency's administration of its reservation economic development effort at the headquarters, regional, and reservation level. We examined pertinent records, reports, and documents and interviewed Federal agency officials, tribal leaders, and businessmen concerning the problems and opportunities of reservation economic development.

To evaluate BIA's promotional efforts and the impact that factors inhibiting economic development can have on those efforts, we mailed questionnaires to 229 businesses identified for us by the four BIA area offices as being interested from 1970 through 1973 in locating on a reservation.

APPENDIX I

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

February 3 1975

Mr. Henry Eschwege, Director
Resources and Economic Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

We have reviewed the draft copy of your proposed report to the Congress on "Opportunities for Increasing Effectiveness of Federally Assisted Business and Commercial Development Efforts on Indian Reservations."

Our comments are directed principally toward updating and expanding informational material in the report dealing with this Department's recently developed procedures and capabilities for assisting Indian development projects. We are also concerned with the recommendations for proposed placement of leadership responsibility. Past experiences and the complexity of reservation problems point to the need for a strong active oversight group to review and monitor proposed projects, undertake resolution of inter-agency conflicts or problems and lend guidance and advice to the coordinating agencies.

Our comments are contained in the attachment and are keyed to the page and paragraph of the proposed draft, as appropriate.

Generally, we believe the proposed report to be an excellent product of considerable importance to the development efforts of the Indians. Since this report is limited with respect to Federally recognized tribes and reservations, a similar project covering non-Federal Indian tribes and reservations would also be useful.

Sincerely,

JOSEPH R. WRIGHT, JR.
Assistant Secretary
for Administration

Attachment [See GAO note.]

GAO note: The attachment was primarily information to update the information contained in the report. The report has been revised to take into consideration the comments where appropriate.

APPENDIX II

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Economic Development
Washington, D.C. 20230

FEB 6 1975

Mr. Victor L. Lowe
Director
General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Lowe:

The revised draft report entitled: "Opportunities for Increasing Effectiveness of Federally Assisted Business and Commercial Development Efforts on Indian Reservations" has been reviewed by EDA staff. We have no objections or suggestions to make concerning this latest version of the report. We, also, support the recommendations made in the report and we will extend full cooperation in implementing those recommendations which apply to EDA.

Thank you and your staff for your understanding and cooperation.

Sincerely,

D. J. Cahill

APPENDIX III

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

JAN 27 1975

Mr. Henry Eschwege
Director, Resources and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

This responds to your request for comments on your draft report "Opportunities for Increasing Effectiveness of Federally Assisted Business and Commercial Development Efforts on Indian Reservations."

Since establishment of BIA's business promotional and technical assistance program, about 240 industrial and commercial enterprises have been established on Indian reservations. Those enterprises employ approximately 18,000 people of which approximately 8,000 are Indians. These figures are not represented as evidence of a success because the programs are not considered successful when measured against what was hoped for and what is needed. But they do present a different picture than the failure of industrial parks which your report tends to highlight.

As a general observation, two factors have a significant bearing on whether or not an Indian reservation develops economically. First, there has to be something to develop, e.g., a natural resource, an advantageous location, an available or skilled labor force. Second, the motivation for development must generate from the tribe itself and this usually means the tribal government.

Federal agencies, including BIA, tend to develop programatic or institutional approaches to most problems. This simply doesn't work with Indian reservations because, as you noted, there are over 200 reservations and each has its own unique physical, cultural, social, and political conditions. Unfortunately, this seems to be a hard lesson to learn.

Save Energy and You Serve America!

Your report criticizes BIA's past promotional efforts on the basis that such efforts lacked aggressiveness, utilized unreliable information, and did not focus on identifying and following up firms most compatible with reservations conditions. This criticism is justified. A more fundamental problem, however, was trying to attack the problem on too broad a basis by simultaneously trying to promote economic development on all reservations without sufficient regard to the individual conditions that applied.

BIA is now moving to a different approach, targeting efforts to individual reservation situations. It is anticipated that these efforts will be responsive to initiatives from the tribal governments. In other words, BIA will provide whatever assistance or try to provide whatever resources a tribal government requests but it will not unilaterally pursue economic development on Indian reservations. This change is expected to improve the quality of those promotional efforts undertaken. But it must be recognized that unless tribal authorities take the initiative, there will be no promotional efforts.

The recommendations in your draft report deal mostly with establishing formal coordinating mechanisms among the various Federal agencies having some responsibility for economic development on Indian reservations. Apparently, GAO sees the absence of formal coordination as a substantive deterrent to economic development, or at least believes that formal coordination would improve the application of effort.

The policy of this Department and BIA is to cooperate fully with any agency, at any level of Government, which has resources or programs which can benefit Indians. However, the Department does not really see the need for formal coordinating mechanisms. BIA is not aware of any significant problems of coordination and your report does not identify any.

The Departmental position on the three recommendations relating to coordination are as follows:

1. The Department does not object to the establishment of a formal coordinating mechanism at the OMB level as your report recommends. And if such a mechanism were established, we would cooperate fully. But, it is difficult to perceive what contribution a group at the Washington level would make or what problems it would address. Consequently, the Department does not intend to advocate this approach.

2. The Department does not concur in your recommendation to develop a systematic broad scale program in cooperation with EDA. As indicated previously, BIA intends to abandon the broad scale approach.

BIA also intends to continue its full cooperation with EDA in accomplishing the tasks identified in your report. While it is true that both agencies do some of the same things, duplication of effort will only occur if these agencies do the same thing at the same place and at the same time and if the efforts are not coordinated. There is no evidence of any significant duplication of past efforts and it is not anticipated that any will occur in the future. Again, we believe local coordination in accord with existing practices is the key to avoiding duplication.

3. Your draft report also recommends that the Secretaries of Interior, Commerce, and Agriculture and the Administrator, Small Business Administration establish a committee to develop procedures for evaluating proposed businesses and for monitoring and assisting businesses receiving Federal financing. The specific examples mentioned in your report of business ventures which failed related to EDA or SBA projects. Based on the information presented, the principal problem appears to be a failure to execute the procedures which already exist. Consequently, establishing more procedures or different procedures does not seem to be the answer.

Your other recommendation directed to BIA, pertains to problems of Indian labor force reliability. Indian labor force problems have been recognized for years and BIA has several programs which address this problem in total or in part. For example, in fiscal year 1975, BIA expects to spend $2,040,000 on the Tribal Work Experience Program, $10,460,000 on Indian Action Team Contracts, and $2,400,000 on On-the-Job Training. Under existing budget levels, it is difficult to see how the level of effort can be increased.

Post employment counseling, which your report suggests, can be effective when implemented within the confines of a specific company or a specific tribal environment. And BIA would consider providing financial assistance, under contract, if a company or tribe desired to implement such a program. There are no plans to establish an in-house BIA program.

We appreciate the opportunity to comment on your draft report.

Sincerely,

A L Reynolds

Director of Audit and Investigation

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

January 15, 1975

Mr. Victor L. Lowe
Director
General Accounting Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Lowe:

The Director has asked me to respond to your letter of December 4, 1974 requesting comments on the draft report entitled "Opportunities for Increasing Effectiveness of Federally Assisted Business and Commercial Development Efforts on Indian Reservations".

Your draft report recommends that:

> "The Office of Management and Budget, in its proposal for the establishment of a domestic council committee on Indian affairs, specify that the committee's responsibility would include efforts to clarify the Indian economic development assistance responsibilities of the various Federal agencies and provide for coordination of program efforts".

The proposal for an interagency committee on Indian affairs is still undergoing review. Should a decision be made to establish such a committee, it is likely that economic development would be among the major topics addressed since, as your draft report notes, multiple agencies are responsible for economic development in Indian communities.

We would note, however, that current proposals for such a committee envision a body comprised of headquarter representatives and focusing primarily on policy issues. Therefore, it is not likely that the entire range of operational coordination issues cited by your draft report would be addressed by such a committee. Some of these issues appear to be more appropriately addressed through improved communication among the field staffs of the agencies involved.

APPENDIX IV

While the agencies directly responsible for conducting the programs discussed in your report will be providing you with suggestions and comments on your analyses of their efforts, there are a number of matters to which we would recommend that you direct your attention in developing your final report. In some cases, these represent new developments in Federal efforts to improve economic development programs and in other cases, these represent areas in which we believe your presentation of factual matters can be improved. This is not an all-inclusive listing to be sure, but it represents some of the matters to which we believe your attention is warranted.

1. While your report mentions the passage of the Indian Financing Act, the majority of your findings and recommendations deal with Federal efforts to induce non-Indian enterprises to locate facilities near Indian communities. Yet the Indian Financing Act is directed toward the establishment and expansion of Indian-owned enterprises. You may wish to review your recommendations for improved promotional activities directed at non-Indian entrepreneurs in light of the new financing capabilities we have for assisting Indian-owned enterprises.

2. On page 3 of your report, you imply that EDA programs are directed exclusively toward rural areas by linking them with your description of FmHA programs. EDA programs are not exclusively directed toward rural areas.

3. Last month, at the request of OMB, the Economic Development Administration and the Bureau of Indian Affairs held a conference of Indian leaders, business leaders, planners on Indian reservations, and representatives of the Federal agencies referenced in your draft report. We hope that this conference was a first step toward improving Federal efforts, and you may wish to consult with the parties involved to determine what changes and improvements will be forthcoming.

4. On page 50 of your report, you cite recommendations from a 1974 SBA report on minority enterprise programs. It is our understanding that this report did not cover programs in Indian communities, and you may wish to mention this in your final report.

APPENDIX IV

5. On page 5 of your report, you mention the FDA Selected Indian Reservation Program. You may wish to mention also that the SIRP has not been in operation since 1971.

6. In a number of places in your report you mention business failures. We would be particularly interested in learning whether you believe that the rate of such failures has been unduly high on Indian reservations as compared to that in similarly situated non-Indian communities. Furthermore, we would be interested to learn whether you believe that projects with a greater likelihood of success than those actually undertaken were foregone because of problems with the selection process.

7. On page 6, you mention that the OMBE Indian desk does not have funds for Indian programs. It is our understanding that OMBE has set aside funds in fiscal year 1975 specifically to assist Indian enterprises.

8. On page vii you make reference to the establishment of a SBA "Indian Desk". You may wish to mention that this "Indian Desk" no longer exists.

Thank you for the opportunity to review your draft report. We look forward to receiving your final version.

Sincerely,

John A. Hill
Acting Associate Director

GAO note: Page number references in this appendix may not correspond to pages of this report.

U.S. GOVERNMENT
SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

JAN 2 1975

Mr. Victor Lowe
Director, General Government Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

Thank you for the opportunity to comment on the draft report, "Opportunities for Increasing Effectiveness of Federally Assisted Business and Commercial Development Efforts on Indian Reservations."

We reviewed the report with interest and would like to make a comment with regard to the recommendation on page 55 which states that our interagency committee consisting of the Secretaries of Interior, Commerce, and Agriculture, plus the Administrator of SBA, be formed to develop procedures for use by each of the agencies.

We concur with this recommendation and would be pleased to participate with these agencies on such a committee. However, we believe that until the factors which inhibit reservation economic development are recognized and understood on a tribe-by-tribe, reservation-by-reservation basis, then it is our opinion that the Federal Government's attempts to leaving economic development to the American Indians will continue to fall short of the mark. Therefore, we suggest that the Secretaries of HEW, HUD, Labor and Transportation be included in the interagency committee to offer ideas on education, welfare, labor training, housing and transportation.

Sincerely,

Thomas S. Kleppe

Thomas S. Kleppe
Administrator

GAO note: The page number reference in this appendix may not correspond to a page in this report.

APPENDIX VI

PRINCIPAL OFFICIALS OF THE DEPARTMENTS OF AGRICULTURE, COMMERCE, AND THE INTERIOR AND THE SMALL BUSINESS ADMINISTRATION RESPONSIBLE FOR THE ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF AGRICULTURE		
SECRETARY OF AGRICULTURE:		
Earl L. Butz	Dec. 1971	Present
Clifford M. Hardin	Jan. 1969	Nov. 1971
Orville L. Freeman	Jan. 1961	Jan. 1969
ASSISTANT SECRETARY FOR RURAL DEVELOPMENT (note a):		
William W. Erwin	Jan. 1973	Present
Thomas K. Cowden	May 1969	Jan. 1973
Vacant	Jan. 1969	May 1969
John A. Baker	Mar. 1961	Jan. 1969
ADMINISTRATOR, FARMERS HOME ADMINISTRATION:		
Frank B. Elliott	Aug. 1973	Present
Frank B. Elliott (acting)	Mar. 1973	Aug. 1973
Vacant	Feb. 1973	Mar. 1973
James V. Smith	Mar. 1969	Feb. 1973
James V. Smith (acting)	Jan. 1969	Mar. 1969
Howard Bertsch	Apr. 1961	Jan. 1969
ADMINISTRATOR, RURAL DEVELOPMENT SERVICE (note b):		
Walter A. Guntharp	Apr. 1973	Present
Walter A. Guntharp (acting)	Jan. 1973	Mar. 1973
William W. Erwin	Feb. 1972	Jan. 1973
Joseph D. Coffey (acting)	Oct. 1971	Feb. 1972
H.L. Ahlyren	Oct. 1970	Sept. 1971

APPENDIX VI

	Tenure of office	
	From	To
DEPARTMENT OF COMMERCE		
SECRETARY OF COMMERCE:		
John K. Tabor (acting)	Mar. 1975	Present
Frederick B. Dent	Feb. 1973	Mar. 1975
Peter G. Peterson	Feb. 1972	Feb. 1973
Maurice H. Stans	Jan. 1969	Feb. 1972
C. R. Smith	Mar. 1968	Jan. 1969
Alexander B. Trowbridge	June 1967	Mar. 1968
Alexander B. Trowbridge (acting)	Feb. 1967	June 1967
John T. Connor	Jan. 1965	Jan. 1967
ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT (note c):		
William W. Blunt, Jr.	Oct. 1973	Present
William W. Blunt, Jr. (acting)	Jan. 1973	Oct. 1973
Robert A. Podesta	Mar. 1969	Jan. 1973
Ross D. Davis	Oct. 1966	Mar. 1969
Eugene P. Foley	Sept. 1965	Oct. 1966
DEPARTMENT OF THE INTERIOR		
SECRETARY OF THE INTERIOR:		
Stanley K. Hathaway	June 1975	Present
Kent Frizzell (acting)	May 1975	June 1975
Rogers C. B. Morton	Jan. 1971	May 1975
Fred J. Russel (acting)	Nov. 1970	Dec. 1970
Walter J. Hickel	Jan. 1969	Nov. 1970
Stewart L. Udall	Jan. 1961	Jan. 1969
SPECIAL ASSISTANT TO THE SECRETARY FOR INDIAN AFFAIRS (note d):		
Marvin Franklin	Feb. 1973	July 1974
COMMISSIONER OF INDIAN AFFAIRS (note d):		
Morris Thompson	Dec. 1973	Present
Louis R. Bruce	Aug. 1969	Jan. 1973
T. W. Taylor (acting)	June 1969	Aug. 1969
Robert L. Bennett	Apr. 1966	May 1969
Philleo Nash	Sept. 1961	Mar. 1966

	Tenure of office	
	From	To
SMALL BUSINESS ADMINISTRATION		
ADMINISTRATOR:		
Thomas S. Kleppe	Jan. 1971	Present
Hilary Sandoval, Jr.	Mar. 1969	Feb. 1971
Howard J. Samuels	Aug. 1968	Feb. 1969
Robert C. Moot	Aug. 1967	July 1968
ASSOCIATE ADMINISTRATOR FOR FINANCE AND INVESTMENT (note e):		
Ronald G. Coleman (acting)	Mar. 1975	Present
Einar Johnson (acting)	Jan. 1975	Feb. 1975
David A. Wollard	Feb. 1973	Jan. 1975
Anthony S. Stasio (acting)	Jan. 1973	Feb. 1973
Jack Eachon, Jr.	Dec. 1969	Jan. 1973
Howard Rogerson (acting)	Aug. 1969	Dec. 1969
Logan B. Hendricks	Aug. 1964	July 1969
ASSSITANT ADMINISTRATOR FOR MINORITY ENTERPRISE (note f):		
C. Mack Higgins	Jan. 1974	Present
Arthur McZier	Oct. 1969	Dec. 1973
Arthur McZier (acting)	Aug. 1969	Sept. 1969
Philip Pruitt	Mar. 1969	July 1969

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[a]Until January 1973, the title of this position was Assistant Secretary of Agriculture for Rural Development and Conservation.

[b]Until January 1973 the title of this position was Deputy Under Secretary for Rural Development.

[c]Position established effective September 1, 1965, as Assistant Secretary and Director of Economic Development. Redesignated as Assistant Secretary for Economic Development effective December 22, 1966.

[d] During the period February 1973 to December 1973 the duties of the Commissioner of Indian Affairs were performed by the Special Assistant to the Secretary for Indian Affairs.

[e] Before February 1973, this position was Associate Administrator for Financial Assistance.

[f] Position created in March 1969.